



Terms of Reference | South Africa to the Rest of SADC Remittances market Assessment

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Prepared by FinMark Trust

FinMark Trust

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1. **About FinMark Trust**

FinMark Trust (FMT) is an independent trust whose purpose is to make financial markets work for the poor by promoting financial inclusion and regional financial integration. FMT does this by conducting research to identify the systemic constraints that prevents consumers from accessing financial markets, and by advocating for change based on research findings. Thus, FMT has a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.

2. **Background and Contextual information**

In 2020 FinMark Trust completed a project on the SADC remittance market, which culminated in a report entitled [South Africa to the rest of SADC: Remittances Pricing](#) which provides the findings of a mystery shopping exercise in late 2019, assessing remittance prices from South Africa to 11 other SADC countries. To assess pricing in the commercial bank-led cross border payments products, it was necessary to complete real transactions in order to get prices; for all non-bank-based transactions it was possible to get binding quotes from service provider websites and in some cases, actual transactions was completed. Exchange rate margins were estimated by comparison to a reference interbank exchange rate.

Furthermore, the G20 has identified four areas to catalyse the development of cross border remittances and they include high costs, low speed, limited access and insufficient transparency¹. The latter three areas have implications for the total cost to client which can be exacerbated by the business model of the remittances service provider.

There are currently four distinctive business models operating in the market: i) the ADLA model; ii) the MTO model; iii) the Bank model; and iv), a Bank-Retailer partnership model. Providers operating each of these models all participate differently in the value chain of a remittance transaction: origination, sending money, clearing and settlement, and distribution. Furthermore, the reliance on different channels and how each provider accesses other parts of the value chain, whether internally, or through third-party relationships, determines that model's profitability.

¹ It is expected that all payment service providers to provide at a minimum a defined list of information concerning cross-border payments to payers and payees (including e.g. total transaction cost (showing FX rate and currency conversion charges), time to deliver funds, funds tracking, and terms of service)

- The origination layer is the “first mile” of a cross-border remittance transaction. The role of origination is to facilitate the disclosure and movement of the required information to enable a consumer to remit funds.
- The sending and distribution layers of the remittance value chain entails the collection of funds from sending customers and the sending of funds to receivers. It also includes the processing of associated information to/from various other providers and platforms operating between the sending and receiving channel.
- The third layer of the value chain involves the clearing and settlement of funds from the sending to the receiving market. Clearing, in the context of cross-border remittances, refers to the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, possibly including the netting of instructions and the establishment of final positions for settlement. Settlement refers to the transfer of funds between settlement banks in the sending and receiving countries. This layer also includes the foreign exchange component of the transaction that is required to transfer funds from one currency to another, which takes place prior to clearing and settlement.

Each layer of the value chain for remittances adds costs to the provider and the end consumer. The United Nations Sustainable Development Goals 10.c aims by 2030, to reduce to less than 3% the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5%. This TOR looks to update the pricing information for the SA – SADC corridor by understanding pricing at the bilateral corridor level, and weighted average pricing for SA – SADC (Angola, Botswana, Comoros, Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Tanzania, Zambia, and Zimbabwe) corridor as a whole. It will also provide qualitative information on the speed and transparency of the remittances services in the SA – SADC corridor. The findings from this study will support the M&E framework of the SADC CCBG Payments Sub-Committee Strategic Vision 2021-2025.

3. **Objective and scope of work**

The overall objective of this study is to use the methodology in the [South Africa to the rest of SADC: Remittances Pricing](#) report to update for comparable pricing information as of June 2021. FMT will provide volumes and values of SA- SADC remittances data to inform the design of this exercise as it is expected that corridors and remittances licencing categories are considered when constructing the weighted average for the SA – SADC corridor. Due to the confounding effects of speed and transparency, the project scope will include,

- Mystery shopping which will cover all remittances service providers with licences in the SA – SADC corridor (covering Angola, Botswana, Comoros, Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Tanzania, Zambia, and Zimbabwe corridors with SA);
- Estimation of pricing for USD 55 and USD 200 detailing the direct and exchange rate margins;
- Detail of the level of transparency and speed of the transactions;
- Actual transactions are conducted to generate receipts in which a breakdown of pricing is obtained. This can be supplemented with publicly available information from service provider websites;
- Segmented pricing information by
 - cash-based (using cash at the first mile) and non-cash-based (digital based transactions at the first mile) transactions
 - SADC Common Monetary Area (CMA) corridors vs non-CMA based corridors
 - Direct transaction costs vs foreign exchange margins; and,
- Provision of qualitative information from remittances service providers on the drivers of costs in each corridor. This could be cash-handling at the first mile, capital investment in agent networks in recipient countries, exchange rates costs and other relevant details.

4. **Approach**

This research work will entail the use of primary and secondary research sources. It will also entail actual remittances being conducted in alignment with the mystery shopping methodology. A small (ZAR400) transaction will be extrapolated for a larger transaction using the exchange rate achieved, and after examining the direct fee schedule of the institution for that size transaction. This will allow the simulation of transactions of US\$55 and US\$200 without incurring major cashflow issues.

5. **Outputs**

- An inception report with the recommended methodology based on the information provided.
- A comprehensive final report in MSWord, incorporating results from the Mystery shopping exercise with the segmentations and qualitative information as specified in section 3;
- A PowerPoint presentation summarising the final report; and
- At least two external stakeholder presentations.

6. **Proposal content**

Organisations/Individuals should submit a detailed technical and financial proposal. The technical proposal is expected to be clear and concise and should be a maximum of 10 pages. It should include:

- Methodology: the approach to be implemented;
- Mystery shopping implementation design per bilateral corridor (for example, SA – eSwatini, SA – Lesotho, SA – Botswana etc);
- Recommendations on ways to refine the proposed methodology;

- Timeline: a detailed timeline for executing all project activities;
- Risk management: a comprehensive list of anticipated project risks and contingency plans;
- Skills and qualifications: evidence of technical capacity to undertake this study;
- Name and qualifications of staff members responsible (i) for overseeing the work; (ii) for undertaking the work;
- Output: outline and structure of the comprehensive research report, and
- Financial proposal: detailed costing for each activity, broken down by professional fees and expenses.

7. **Required skills and qualifications**

Applications from interested individuals must provide evidence of the technical capacity to undertake this exercise. This includes capacity to deliver the results in the timeframe provided, as well as some indication of prior experience in coordinating large projects and supporting stakeholder engagement within the cross-border remittances, migration, and digital payments. Individuals /core team members' CVs must be included, as well as a description of any further resources that may be required. Required skills / qualifications include the following:

- College or University degree in Economics, Social Science, Development Finance, International Development, or other relevant fields;
- A minimum of ten years of relevant experience in cross-border remittances, migration, digital payments and financial inclusion is advantageous;
- Demonstrated capacity to apply gender analytical frameworks and results uptake and usage;
- Experience in project management is required with an excellent understanding of the local financial system;
- Excellent computer literacy, including research and report writing skills;
- Personal commitment, efficiency and flexibility, teamwork spirit with the ability to work independently or under minimum supervision; and
- Excellent communication, written and verbal skills both **in English is essential.**

8. **Selection criteria**

Contract selection criteria and award will be made on the basis of the following scoring mechanism:

	Criteria	Weighting
1	Competence and previous experience	30%
2	Knowledge of the local financial services market & SME Sector	30%
3	Local capacity in focus countries	10%
4	Budget	30%
	Maximum score	100%

9. **Submission**

Proposals: Proposals for the project should be submitted by close of business on 22 September 2021 at 17:00 (SAST) by email to Damola Owolade (damolao@finmark.org.za). The successful bidder will be

notified by 27 September 2021. It is envisaged that the project duration will be eight weeks from the date of contract signature.

The selected consultant must be prepared to meet with FMT on a date to be announced, for a briefing. Once the selection process has been completed, FMT will issue a contract confirming the appointment of the consultant. Any queries relating to the preparation of the application should be referred to Ms. KgomoTso Tolamo by email: damolao@finmark.org.za

In line with FMT's policy of transparency, answers to queries from one candidate will be circulated to all who indicated their intention to submit a proposal.

10. Safeguarding

The selected service provider has the responsibility to consider and be aware of potential safeguarding issues in the Terms of Reference and be able to demonstrate due diligence in relation to the protection and safeguarding of children and vulnerable groups as per agreed set of actions and strategies designed to support and manage ongoing risk and abuse, exploitation or neglect of participants in this research project.

11. COVID-19

The selected service provider and FinMark trust recognize the need to minimize the spread of the Corona Virus and the parties will agree on appropriate non face to face methods of communications and completion of required tasks to ensure that work on the project is able to continue effectively. The situation however will be closely monitored by both parties on an ongoing basis.

Guidance notes to bidders

FinMark Trust reserves the absolute right to use its discretion in the interpretation of these award criteria. The following notes are intended to provide broad guidance only on how proposals will be evaluated. Bidders may be required to clarify their proposals by way of a telephone call or presentation.

"Relevant, demonstrated competence of firm(s) in this area" - you should aim to demonstrate how the firm's collective past experience can be applied (or adapted) to address the specific brief set out in the terms of reference. You are welcome to describe the firm's general experience of financial sector development issues (e.g. in other geographies or topical areas) but the evaluation will focus particularly on the application of that experience for the specific task at hand.

"Demonstrated expertise of key individuals to be involved in this project" – the evaluation places considerable emphasis on the role and demonstrated expertise (i.e. track record) of the key individuals to be involved on the project rather than on the expertise of the firm itself.

“Use of local professional capacity (consulting, analysis, coordination etc.)” – FinMark Trust wishes to ensure that local capacity is used and developed. International firms are therefore encouraged to partner with local organisations.

“Content, quality and originality of proposal” – proposals should address the brief set out in the terms of reference in a comprehensive manner. Bidders should aim for innovation as well as professional presentation. Whilst similar, relevant experience in other markets will be an advantage for a bidder, each market is different and so proposals need to reflect the particular characteristics of that market, as well as the challenge set by the terms of reference.

“Fee basis” – value for money, as well as absolute cost, will be taken into account.

12. Important to note

If no communication has been received from FMT after 1 month of your submission, please consider yourself as unsuccessful.